Why Invest in Bond Funds

Summary:

- Investing in bond funds offers benefits such as potentially higher returns than Fixed Deposits (FDs), the flexibility to redeem your investment, and portfolio diversification.

Have you been looking for an alternative investment with potentially higher returns than bank deposits while having the flexibility of redeeming it on any business day? If so, investing in bond funds may be an attractive solution for you.

Bond funds invest in a diversified portfolio of bonds with the balance invested in deposits and money market instruments. Issuers (commonly the government and corporates) issue bonds in exchange for cash. The bonds issued by the government are also known as sovereign bonds.

The bond issuers will then make regular coupon payments, usually on a half-yearly basis. When the bond matures, the issuers are required to redeem the bond by paying the principal amount (also known as the nominal value).

Public Mutual offers both conventional bond and sukuk funds. Our conventional bond funds invest in corporate and sovereign bonds with the balance invested in liquid assets, such as deposits. Meanwhile, the sukuk funds invest in corporate and sovereign sukuk with the balance invested in Islamic liquid assets, such as Islamic deposits (please refer to the Prospectus for more detailed information on the funds). Generally, the main objective of bond funds is to provide steady annual income to investors.

Benefits of Investing in Bond Funds

a) Potentially Higher Returns Compared to Fixed Deposits (FDs)

Table 1 shows that our bond funds' returns were higher compared to the FD on a 1-year and 3-year basis. The performance of the funds was underpinned by the funds' investments in quality bonds coupled with the resilient domestic bond market.

Table 1: Public Mutual's Bond & Sukuk Fund Performance Ended 29 March 2019

	Total Return (%)		Fund Volatility Class (FVC)	3-Year Fund Volatility Factor (FVF)#
	1-Year	3-Year		
Sukuk Funds				
Public Islamic Bond Fund	6.50	16.38	Very Low	1.5
Public Sukuk Fund	6.34	15.43	Low	1.7
Public Islamic Infrastructure Bond Fund	6.29	15.55	Very Low	1.5
Public Islamic Strategic Bond Fund	5.49	13.56	Very Low	1.4
Public Islamic Income Fund	5.21	13.04	Very Low	1.0
Public Islamic Select Bond Fund	4.77	13.76	Very Low	1.0
Bond Funds				
Public Enterprises Bond Fund	6.78	16.73	Very Low	1.2
Public Bond Fund	5.56	14.73	Very Low	0.9
Public Strategic Bond Fund	5.31	14.14	Very Low	0.9
Public Select Bond Fund	4.81	12.80	Very Low	0.8
Fixed Deposit Rate				
Public Bank 12-Month FD Rate	3.33	9.93		

Source: Lipper, April 2019

#Based on the fund's portfolio returns as at 10 March 2019

b) Tax-Exempted Returns

As bond funds' returns are tax-exempted, corporate investors (who are liable to pay tax on interest income earned from their bank accounts) may allocate part of their bank deposits into bond funds to enhance their overall return.

c) Flexibility of Redeeming Your Investment

Besides enjoying potentially higher returns than bank deposits, bond fund investors can also enjoy the flexibility of redeeming their investments on any business day with no penalties. Additionally, the redemption proceeds will be banked into investors' registered bank accounts with us within 10 calendar days (2 business days for Mutual Gold members). With this flexibility, investors can grow their savings with peace of mind.

In contrast, placing a sum of money in the FD for a contractual period of one year, and subsequently withdrawing the FD placement prior to its contracted maturity date may result in forfeiture of up to the total income accrued.

d) Effective Diversification

Bond funds may serve as a good tool for effective diversification as they provide stability to investors' portfolios due to its low volatility. Besides, bond funds also offer steady annual income to investors.

In a volatile market environment, the stability of bond funds could provide the much needed diversification and help you to stay on your chosen lane towards your financial goals.

In view of potential movements in bond prices, investors should take a longer-term perspective when investing in bond funds. Although changes in market conditions, such as interest rates may result in fluctuations in bond valuations, such movements should even out over the longer term.

Conclusion

Investing in bond funds not only helps investors to create a saving pool, but also allows them to benefit from the opportunity to earn potentially higher returns than bank deposits. Bond funds also help to stabilise the performance of investors' portfolios. After all, a well-structured unit trust investment portfolio should be diversified across equities, bonds and money market instruments in line with investors' profiles and financial goals.

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You are advised to read and understand the contents of the Master Prospectus 1 of Public Series of Funds and Master Prospectus 1 of Public Series of Shariah-Based Funds dated 30 April 2019; and the relevant fund's Product Highlights Sheet (PHS) before investing. These Prospectuses have been registered with the Securities Commission Malaysia who takes no responsibility for their contents, and neither should their registration be interpreted to mean that the Securities Commission Malaysia recommends the investment.

You should note that there are fees, charges and risks involved in investing in unit trust funds; and that the prices of units and distribution payable, if any, may go down as well as up. Please refer to the Prospectuses and PHS for information pertaining to the above. Past performance of a fund is not an indication of its future performance. Applications to purchase units must come in the form of a duly completed application form referred to in and accompanying the Prospectuses. A copy of the Prospectus and PHS can be obtained from your attending unit trust consultant or nearest Public Mutual Branch/Customer Service Centre.

The Volatility Factor (VF) means there is a possibility for the fund in generating an upside return or downside return around this VF. The Volatility Class (VC) is assigned by Lipper based on quintile ranks of VF for qualified funds. VF is subject to monthly revision and VC is revised every six months. The volatility banding for the "Very Low", "Low", "Moderate", "High" and "Very High" VCs as at 31 December 2018 are 0.000 ≤ VF ≤ 1.760, 1.760 < VF ≤ 6.595, 6.595 < VF ≤ 8.795, 8.795 < VF ≤ 11.415 and VF more than 11.415 respectively. For this period to 30 June 2019 the VCs for the funds are based on the VFs of the respective funds as at 31 December 2018. The fund's portfolio may have changed since this date and there is no guarantee that the fund will continue to have the same VF or VC in the future. Presently, only funds launched in the market for at least 36 months will display the VF and its VC.